

TREASURY NEWS

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TESTIMONY OF TREASURY SECRETARY PAUL O'NEILL BEFORE THE SENATE COMMITTEE ON FINANCE SUBCOMMITTEE ON LONG-TERM GROWTH AND DEBT REDUCTION

Mr. Chairman, and Members of the committee last December, just three months to the day after the tragic events of September 11, I wrote to Congress requesting an increase in the statutory debt ceiling by \$750 billion. Yesterday I sent another letter, repeating this request with a revised projection that the debt ceiling will be reached in late March. Failure to enact a permanent increase in a timely manner would only serve to undermine confidence in our government and in our economy.

Last August, we forecast that the debt ceiling would be reached in late 2003. Since then, war, recession and national emergency have intervened. This year's surplus has been eroded by the economic downturn and the response to the September 11 attacks.

While the timing of the need to increase the statutory ceiling is sooner than we had anticipated just six months ago because of untoward events, we've always known it would need to be raised at some point. Payroll taxes that the American people put aside and send to the Social Security trust fund result in an increase in the level of debt subject to limit because these funds are invested in special Treasury securities. The same holds true collections for Medicare, highways, airports and other special purposes for which the government has established trust funds. Government account holdings of these special Treasury securities increase by more than \$200 billion each year. As these trust funds grow they push up the level of the Treasury's outstanding debt. Indeed, over time the growth of the Social Security trust fund is - and will continue to be - the most significant contributor to the increase in the level of the government's debt subject to limit.

The US Government has the premier position in world capital markets because there is no doubt the United States will honor its financial commitments. Legislative action on the debt ceiling is necessary to preserve the US position in world capital markets. Any delay could create uncertainty that would raise the cost of borrowing for US taxpayers.

This is an unnecessary expense and, of course, any uncertainty added to the early stages of our economic recovery would be particularly unwelcome at this time.

I urge Congress to enact this increase in the debt ceiling quickly.